

# The role of intellectual capital management on the empowerment of organizations

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## Abstract:

The economy which is based on knowledge and intellectual capital cause the organizations to improve themselves and their products. The most successful companies are the ones which know how to make use of this intangible property in a better and fast way. Intellectual capitals include knowledge, information, intellectual wealth and experience that can be fortune generating for the company. Intellectual capital is a group of collective mental abilities or key knowledge which can act as a source to increase organizational competence and improve business performance. Empowerment is an essential management tool that can be used in directing human resources in order to increase productivity. Nowadays, intellectual knowledge and capital are used in creation and increase of value and organizational empowerment. The present study which is a descriptive and analytical research attempts to define and clarify intellectual capital and knowledge management and their dimensions; it also aims at investigating the role of intellectual capitals on organizational empowerment.

**Keywords:** Knowledge, knowledge management, intellectual capital management, organizational empowerment.

## Introduction

In the competitive world of organizations we deal with an environment which is highly complicated, globalized and dynamic. Therefore, with the aim of resist and stay, the organizations encounter with new and novel challenges. In order to survive among these challenges, the organizations need to pay more attention to development and reinforce

skills and internal abilities; this can be accomplished through organizational knowledge and intellectual capital principals. The organizations can use these principals to reach better performance in the business world.

Intellectual capital and knowledge are considered as stable strategies for organizational empowerment (Barney, 2001). In the present knowledge-oriented world organizational capabilities are based on intellectual capital and awareness; in this regard, the organizational managers need to identify the capabilities which are necessary for empowerment. As a result, knowledge properties and intellectual capital are identified as strategic tool for business management and creating constant creativity. Therefore, organizations can make a unique type of empowerment by generating knowledge and proper use of intellectual capitals.

The main challenge in the present era is to prepare a suitable environment for intellectual growth of people in knowledge-based organizations; knowledge management and intellectual capital are the principal skills of managers in this kind of organizations. In the present economy the empowerment of organizations is based on invisible property and intellectual capital which can be accomplished by using knowledge, appropriate relationship with acknowledged people, gaining important experience and relying on intellectual capitals, organizational techniques and specialized skills. The organizations can change knowledge to intellectual capital through awareness and the existent management processes. When the companies move from industrial economy to competitive economy and empowerment, they face great challenges like vitality, uncertainty and complexity; these conditions necessitate more awareness about intellectual capital and immediate control. As a result, the organi-

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zations begin to detect and manage their invisible properties.

## Methodology

The method of this research is descriptive-analytical; it attempts to investigate the role and effect of knowledge management and intellectual capital on organizational empowerment by studying important and effective sources and interviewing some organizational managers and administrators.

### *The concept of intellectual capital*

The emergence of "information technology" revolution causes the formation of informational community and evolution and development of high technology which leads to a substantial change in the structure of global economic growth. As a result of these developments, knowledge as a significant capital, started to be replaced by physical and financial capitals in economics. In a knowledge-based organization, the traditional accounting methods which are based on tangible and concrete properties are considered ineffective for evaluating intellectual capitals which are the greatest and most valuable intangible properties of an organization. The new field of intellectual capital creates a different research domain for organizational scholars and stakeholders; the intellectual capital field concentrates on making new measurement mechanisms for reporting important intangible variables like human capital, organizational capital, customer satisfaction and creativity. Simply put, intellectual capital includes the difference between market value and agency value of the organization possessions (Bonitos, 1991).

In another definition, intellectual capital is described as the invisible business scales and properties of a company that have great influence on performance and key factors of success; of course these criteria are not reflected in balance sheet. Intellectual capital is expressed by other titles like intangible property, knowledge-based property, knowledge capital, informational property, human capital and hidden values of a company; it includes innovations, basic knowledge, and different ways of designing products, computer programs and publications. In other words, intellectual capital involves properties that are intangible, but it gradually generates wealth for the organization (Avenger, 2001).

There are various models of intellectual capital,

with different dimensions; based on each of these dimensions, defined scales and techniques have been used. The most important model of intellectual capital consists of three parts: human capital, organizational (structural) capital and relational capital (Argot, 2000).

### *Human Capital*

This capital which sometimes is called human resource capital is a base of intellectual capital and is considered as a very important element in value generation of organizations (Avenger, 2001).

Human capital includes all intellectual properties of the companies like knowledge, skill and other capabilities of the employees; this capital enables the employees to solve the problems related to organization and customers.

This type of capital which is considered as the most important scale of intellectual capital embraces the whole knowledge of the people within the companies and demonstrates the ability of organization in finding the best solutions by using the knowledge of employees.

### *Components of Human Capital*

Competence of employees: strategic leadership team; employees' characteristics; learning ability; effectiveness of staff training; the ability of staff in participation in decision-making and management; training technical and managerial employees.

Attitude of employees: achieving identity from organizational values; amount of satisfaction; rate of job abandonment; average of beneficial life.

Creativity of employees: creation ability of employees; the income obtained from innovative thoughts of staff (Chen, 1998).

### *Organizational Capital*

This includes non-intellectual properties of company which embraces factors such as data base, customer information, trademarks and organizational structure; it remains within the organization after the employees leave the company to go home at night (Snyman, 2004).

This capital belongs to the organization and it is independent of people; it is also the ability of the organization in meeting the market requirements (Avenger, 2001).

### *Components of Organizational Capital*

Organizational culture: creating organization-

al culture; achieving identity of the employees from the organizational approach.

Organizational structure: the clear relation between authority, responsibility and interests; the reliability of organization's control system.

Organizational learning: creating and applying information network within the organization; creating and applying data storage of organization.

Operational process: period of business process; quality level of product; operational efficiency of organization.

Data system: support and cooperation among employees; ability to access organizational information; knowledge sharing (Chen, 1998).

### *Relational Capital*

This capital is considered as the most important part of intellectual capital in creating added value; it includes the internal and external relationship between organization's stakeholders. Distribution channels and the customers' satisfaction and loyalty are critical factors in generating added value. This capital is related to suppliers, retailers, wholesalers and especially costumers. We can account customer loyalty as a part of relational capital (Snyman, 2004).

Previously, relational capital was identified by the title if costumer capital; it gradually started to improve and embrace relationship with other stakeholders and market information in attracting and keeping the desired costumers. This capital consists of the whole possessions that arrange and direct company's relation with environment; it also involves relationship with customers, shareholders, suppliers, government, government agencies and competitors. Although customer capital is the most important aspect of relational capital, we should not consider this aspect only (Rahnavard, 2004).

#### *Components of Relational Capital*

Basic functions of marketing: creating and applying customers' data base; costumer service capability; the ability to identify customer needs.

Market severity: market share; market potential; selling units; popularity of company brand; creating sell channel; fair rules with suppliers; timely fulfillment of commitment toward suppliers; honest response to investors questions from attentive sources.

Customer loyalty: customer satisfaction; customer complaints; customers flee; investing on customer relationships.

### *Knowledge Management*

In recent years knowledge as the key source for

organizations in achieving competitive advantage has become a very important subject and the idea of "managing knowledge" becomes popular in many knowledge-based businesses, learning organizations and intellectual capital management. The organizations are attempting to find new ways to survive in business field and compete effectively. One of the ways to reach efficiency is the detection and development of properties that are highly efficient for companies but have Benn used improperly (Turban, 2005).

Understanding knowledge management which is an inter-major field is so difficult, complex and unclear. However, this difficulty must not make us to leave this field totally. Knowledge management ideas should be considered and have effect in strategy planning of a company.

Knowledge management is a process which helps organizations in detection, selection, organizing and transferring of information and important skills that are part of organizational memory and are often unstructured (Turban, 2005).

In another definition, knowledge management is defined as knowing about the existent knowledge in organization; creation, sharing and transferring of knowledge; using the current knowledge; achieving and storing new knowledge; these functions can be accomplished in organizational learning process by paying attention to organizational culture and strategies. Structuring of knowledge improves efficiency in solving the problems, learning vitality, strategic planning and effective decision making. Knowledge management concentrates on knowledge identification, description and organizing and increasing value by reusing. Knowledge management can be used in many fields like knowledge engineering and artificial intelligence.

### *Relationship between Intellectual Capital and knowledge Management*

The relationship between intellectual capital and knowledge management is very important for organization; there are central overlaps between these two which complete them. These overlaps depend heavily on organizational plans and priorities. Knowledge management plays a vital role in the development and efficiency of intellectual capital and concentrates on facilitation and management of knowledge-oriented activities. This will provide a friendly and scientific environment for intellectual capital growth. The relationship between intellectual capital and knowledge management can improve

intellectual capital when the existent knowledge processes are managed systematically and purposefully. In order to have a systematic approach toward knowledge management, we must consider it beyond traditional borders of management domain; we must also consider different factors which are effective in identification of intellectual capital and its components and activities related to the implementation of knowledge management.

This approach requires solidarity among technologies, people and systems with special focus on people and also management and measurement. Coordination between intellectual capital and knowledge management can be accomplished through innovation and discovery of new ideas which lead to better products and services and constant relationship with customers and their capitals. Knowledge management creates value for the organization by changing human capitals to structured intellectual properties.

### Empowerment

Empowerment refers to the conferment of authority to people and enabling them to make decisions in the lower organizational levels. Empowerment is also related to confidence, motivation, decision-making and specifically breaking internal borders between employees and managers. Empowerment means permitting employees to make decision in service processes that prediction of them may be difficult in terms of rules and procedures (Jafari, 2002).

Empowering human forces means creating a group of necessary capabilities for employees so that they will be able to generate added value in organization and perform their role and responsibility. However, empowerment is not combined with assigning authority to employees. Generally, people already possess power in the form of knowledge and motivation to perform in a best way; empowerment is considered as an opportunity to release this power (Cohen, 1990).

Empowerment is completely different from giving power to people. Power is not the same as empowerment, comparison of these two reveal their basic differences. People can have power and enablement simultaneously. However, a person can assign power to someone else when he is able and powered to do so. An individual cannot become empowered only in situation which are made to provide empowerment for people. Empowerment means that the employees are able to perform their

duties perfectly before being told. Empowered employees are able to find best and proper solutions for the problems (Aghayar, 2003).

### Empowerment levels

Some scholars consider special levels for empowerment, for instance Wilson proposed four levels for empowerment based on individuals growth and organization development:

- Work level
- Workplace level
- Division level
- Organization level

Wilson believed that individuals' growth depends on the amount of willingness of organizations to involve people in empowerment process and organization development occurs when the purpose is to provide a change in the organization. In higher levels, the organization empower people in work level so that the people's work structure will change and more tasks will be assigned to them; this will increase the value and meaning of people's jobs. In workplace level, many of the manager's daily routines are submitted to teams; people in this level need extra skills in addition to the existent skills they already have.

These skills require an organization which has invested on training programs. Empowerment in division level includes managing and directing a division in a large organization; it requires flat and non-bureaucratic structure, it is also needed to create a level of connection between manager and staff in order to facilitate their relationship. In this level, employees help and influence the procedure and policy making of the organization.

Finally, empowerment in organization level is the broad and extensive form of empowerment in division level. In this level the employees not only cooperate in decision making of their own division, but also they participate in decision making in organizational level. In other words, employees have to participate completely and actively in organization management from technological development to operational level.

### Empowerment Elements

Blanchard, Carlos and Randolph stated that three elements of empowerment which are the steps and processes of empowerment are the followings:

- Collective participation in data
- Creating autonomy by determining boundaries and limitations.
- Replacement of hierarchy by autonomous teams.

### Basic steps in Empowerment

Empowerment concept is beyond submitting authority to employees. As a result of empowerment the employees are assigned by their duties and they are faced with conditions that are provided for them in order to make decision for extra activities. Generally, most of the attempts to make empowerment are not successful, because the managers do not execute it in a good way (Aghayar, 2003). In order to ensure the success of empowerment, in addition to encourage employees we need to consider the following steps:

1. Train employees to make use of the opportunities: if you do not do it, the staff can act well and they lose self-confidence; so that, they fail to use forthcoming opportunities.

2. Trust employees: you need to believe in the abilities and decision making power of the staff. If they made a wrong decision, you should stay calm and patient; tell them the reasons of this wrong decision and provide them with necessary information to make future decisions.

3. Clarify your expectations: during empowerment if the employees be unaware of your and organization's viewpoints and expected results, there is no possibility for success. However, it is not necessary to utter your expectations for usual and daily works.

4. Concentrate on strong points of staff: when the employees make correct decisions and act beyond your expectations, respect their acts and reinforce their self-confidence.

5. Information exchange: when the employees have broader view of plans, programs and tasks in the organization, they can get empowered. It is somehow impossible to make accurate decisions through narrow perspective.

6. Encourage employees and believe in your power, ability and capability: encourage employees to find solution for the problems and challenges; in this way you can prove your capacities.

7. Honor the achievements of employees: if you cannot provide financial reward for the employees, at least arrange opportunities so that they can prove and demonstrate their abilities or it is better to reform their jobs so that they can discover their hidden talents and flourish in their works (Aghayar, 2003).

### Empowerment Obstacles

We should not just concentrate on obvious obstacles, as there are some intangible problems which inhibit employees to perform (Bergeron, 2008). Some of the obstacles are presented here:

- Lack of a definite definition of employees' empowerment
- Lack of empowerment culture in organizations
- Formal and excessive bureaucracy in organizations
- Managers' fear of losing control power
- Fear of having many managers and employees
- Lack of open and complete relationship in the organization
- Lack of support about empowerment of human resources from high level managers
- Lack of proper organizational systems such as planning, rewarding, promotion, training, recruitment and assignment, in order to support empowerment of human resources in organization
- Lack of performance assessment management in organizations to evaluate and revise empowerment process of human resources.

### Organizational Empowerment Principals

1. There is no standard or magical formula for empowerment. Empowerment has specific features in every situation.

2. Empowerment is based on a purpose: it is a tool to achieve a purpose not a purpose by itself. It helps employees to help themselves and their organization; it gives meaning and pride to perform better.

3. Empowerment must be managed: perform it and make sure it is performing.

4. Empowerment act well when it is based on values: when the managers are desirable among employees, empowerment will give more positive energy.

5. Trust and commitment are key factors: by capturing employees' thought and spirit, you can provide their participation in decision making and reinforce their attempts and loyalty.

6. Managers and administrators must be empowered like employees.

7. By defining work borders, the employees' authority scope will be clarified; this can be accomplished by removing the obstacles.

8. Connection and information: they are vital factors in empowerment.

9. Empowerment training is something more than revision movements. Prepare staff for more participation and improvement of functions; tell to employees that the company spends for their training because they are important for the company.



10. Coaching and psychotherapy is more effective than control and observation; especially, when you want to encourage employees to participate and improvement.

11. Honoring and appreciating is necessary in forthcoming successes; show your gratitude to reinforce desirable behaviors.

12. Empowerment is a difficult and time consuming process; we cannot change beliefs, policies, methods, organizational structure and behaviors so easily (Bergeron, 2008).

## Results and Discussion

It is clear that empowerment, power and competitive ability in organizations can be generated from the organization's knowledge and thought. Every organization uses knowledge and thinking as an important tool in company directing and decision making. We can reach a unique power and ability in organization through using intellectual capital, strategies, specific plans and knowledge with the assist of employees.

## Conclusion

Nowadays, all of the organizations try and hope to have strong, stable and continuous competitive advantage, power and capability by using knowledge and thought of human sources. Companies and organizations need practical, basic and critical principal by using internal knowledge management and intellectual capital of employees and examining weak and strong points. In addition, companies and organizations need empowerment of human sources in first level by using knowledge and intellectual capital, and empowerment and legal organizational power in second level, in order to develop rapidly and survive and compete strongly among their competitors. Knowledge, thinking and intellectual capital of organizations make them more powerful to perform better in complicated and competitive world of orga-

nizations to achieve their purposes. Therefore, considering empowerment from individual approach to improve employees' abilities and also from organizational approach to improve ability of executive systems is very important and necessary.

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